

-----Original Message-----

From: BYRNE, STEPHEN A [mailto:SBYRNE@scana.com]

Sent: Wednesday, January 20, 2016 10:13 PM

To: Crosby, Michael

Subject: [EXTERNAL SENDER] Re: VCS

Michael,

Not sure on duration for Carlette, we can discuss next time we are together. I am not sure of the outcome of the lawyer's discussion on the Bechtel report, let me check with Ron Lindsay.

Sent from my BlackBerry 10 smartphone on the Verizon Wireless 4G LTE network.

From: Crosby, Michael

Sent: Wednesday, January 20, 2016 8:33 PM

To: sbyrne@scana.com

Subject: VCS

Steve,

Hope all is well in SC.

I'm still operating out of Florida ... but hope to be wrapping things up here soon ... on target for the end of the month.

Do you know the status of the Bechtel doc?

As discussed last Thursday (Energy Room) our Board meeting is Monday (25th) ... anything you can do to help free-up that doc would be greatly appreciated.

I will be with Lonnie this Saturday evening. In addition to Bechtel ... I need to bring him up to speed on Carlette. Marion has met Betty Best and believes we are in good hands for the interim. I know it's probably a difficult question ... but any sense of how long Carlette may be out?

Thanks for the help Steve ... look forward to reconnecting with you soon.

Michael

Nuclear – Executive Session – Jan 25, 2016

• EPC – Oct Amendment

- WEC acquisition of Stone & Webster from CB&I
 - Committee on Foreign Investment in US – approval received late Dec
 - Deal closed Dec 31, 2015
- Westinghouse formed a new LLC ... WECTEC
 - Stone & Webster is now wholly owned subsidiary of WECTEC
 - Fluor ... is subcontracted to Stone & Webster
 - Construction management
 - Construction
 - Bulk procurement
 - Project controls - integration

• Fluor – is now onboard

- so Day 1 ... which was Jan 4 ... was a clean transition
 - Fluor & WEC ... had planned well ... we were pleased
 - Fluor ... took control of the Stone & Webster site staff
 - Included ... 2 key leadership replacements right out the box
 - CB&I ... Project Lead & CM ... were both replaced
- ... so this month ... thru early March (and beyond) ... a lot of activities going in parallel
 - Construction ... will obviously continue
 - All current work scopes ... are undergoing a detailed assessment
 - Goal ... implement ... site performance improvements
 - We have to pick-up the pace ... 1/2 % ... needs to 2-1/2 %

- **Detailed Project Schedule Validation** ... has already kicked off
 - **This is a big deal** ... its where the rubber meets the road
 - **Fluor's ability to work with WEC to:**
 - **Drive WEC engineering** to completion
 - **Mitigate & adhere** to a schedule
 - **CP material shop** – discussions on-going, not business as usual

will determine the success of the project.

 - **That effort has kicked off** ... target completion is ... **end of May**
 - We will be **monitoring closely**
 - This work **will fold-in** to the development of new **Construction Milestone Payment Schedule**
- **More near term personnel work** ... balance of **S&W staff** ... will be **evaluated**
 - I anticipate ... **Fluor will continue to install** its own leadership
 - And by **early Mar** ... the **remaining S&W construction staff** ... the keepers ... will **become Fluor employees**
 - **At this point in time** ... Fluor should be in a **better position** to start **driving the construction process** ...
 - **Authorize new work scopes**
 - **Adjust craft up / down** ... as appropriate
- **Monthly Progress Meeting** ... last Thursday ... **1st** with Fluor in attendance
 - Good engagement
 - Fluor Project Lead ... Jeff Hawkins ... was very involved in the discussions
 - Enthusiastic and committed ... to turning poor construction performance around.
 - Also ... committed to completing the schedule validation work

- **Other EPC – Oct Amendment ... other action items**

- Quarterly Executive Meetings – Toshiba, WEC, Fluor
- Dispute Resolution Board
- Construction Milestone Payment Schedule
- Fluor – official scope of work – integrated org chart

- **Bechtel Report**

- Legal **Redacted - Privileged**
- SCANA meeting - Jan 14, 2016
 - SCANA wants Bechtel's schedule projection scrubbed from report
 - Bechtel's Schedule Projection
 - V2 delay – (18 - 26) months
 - V3 delay – (24 – 36) months
 - We continue to press Kevin Marsh / George Wenick for the report

- **SCPSA Board – VCS Site Meeting – March 11, 2016**

- Construction Tour
- SCE&G report out on project
 - Q&A
- George Wenick report-out on Bechtel
 - Q&A

Construction Update – if time allows - Jan 25, 2016

- **Construction Progress (Significant Activities)**
 - Unit 2 Nuclear Island
 - Completed shield building vertical seam welds and NDE for course 2 panels
 - Completed girth seam weld for course 2 to course 1 panels
 - Began concrete placement in course 2 panels
 - Completed concrete placement inside containment to elevation 387' 6"
 - Unit 2 Turbine Island
 - Completed concrete placement of 10' thick turbine/generator pedestal (2,400 cubic yards)
 - Completed set of all unit auxiliary, reserve auxiliary, and main step-up transformers
 - Unit 3 Nuclear Island
 - Completed concrete placement under CVBH to 390' 6" east side
 - Installing rebar and embedments inside containment for concrete that will support structural module CA05
 - Continuing exterior and interior auxiliary building wall work
 - Unit 3 Turbine Island
 - Completed concrete placement for two of five turbine building walls from basemat elevation of 382' 9" to 394'

Special Called Board Meeting Oct 27, 2015

What risks still exist going forward ?

- Schedule certainty
- WEC / Fluor - leadership & integration
- Engineering completion
- Certainty on critical path materials

Nuclear – Executive Session – Dec 7, 2015

- WEC ... acquisition ... of Stone & Webster ... well underway
 - Last significant approval needed ... is from
 - Committee on Foreign Investment in the United States
 - Deal expected to close ... late Dec.
- Fluor integration process ... is underway
 - All current work streams are under review
 - Goal ... seamless transfer of CM on Day 1
- Bechtel Assessment
 - Legal Redacted - Privileged

- Next Steps
 - Get the deal closed
 - Monitor Fluor's performance
 - Close eye their project integration capabilities
 - Schedule Validation
 - Engineering completion plan
 - Critical Path ... material mitigation
 - Construction Milestone Payment Schedule ... development
 - Bechtel Assessment
 - Recommendations – implementation plan

**ATTORNEY-CLIENT PRIVILEGED
CONFIDENTIAL INFORMATION**

In an effort to help inform our legal staffs ... following are high-level bullet notes which hopefully capture the essence of yesterday's meeting with the Consortium.

Kevin & Steve ... if I have missed anything pertinent ... or misrepresented anything ... please do not hesitate to let me know ... M. Crosby

Rebaseline Schedule / EAC - Owner / Consortium Meeting (Round 2)
SCANA Headquarters - Dec 10, 2014, 10:00am

Attendees:

Kevin Marsh, Steve Byrne

Lonnie Carter, Marty Watson, Michael Crosby

Phil Asherman, Pat Mullin, Jeff Lyash, Kelly Trice, Luke Scorsone

Kiyoshi Okamura, Danny Roderick, Jeff Benjamin

- Upon arrival, Phil Asherman and Danny Roderick met privately for about 30 minutes.
- Meeting with Owners began around 10:45am.
- CB&I (initially) took the lead in the meeting.

Project Schedule (summary of Jeff Lyash remarks)

- The Shield Building(s) remain the critical path to project completion.
 - The Consortium recently completed a detailed review of the Shield Building material delivery schedule and construction execution plan.
 - Based on a confirmed NNI wall panel delivery schedule and the results of trial fit-up work recently completed at the Vogtle site ... the Dec 2018 – Dec 2019 Unit completion dates are no longer achievable.
 - The Consortium believes ... the June 2019 – June 2020 Unit completion dates are achievable but stated these dates still contain significant risk ... primarily based on the wall panel fit-up issue.

- CB&I offered no willingness to accept any additional risk (or skin in the game) based on these later dates.

Regulatory Change

- Based on comments from Pat Mullin, Jeff Lyash, Danny Roderick and Jeff Benjamin ... the Consortium was united on its point that “regulatory change” has been the primary culprit for the project delays realized to date.
 - Jeff Lyash further claimed that “regulatory change,” stemming from the NRC ruling on the Unit 2 basemat concrete issue (ACI 349 - Dec 2012), has had a resounding impact on all civil and structural work ... including submodule fabrication work.
 - Per Jeff Benjamin ... WEC will be presenting the Owners in the near term an invoice (against fixed and firm categories of work) supporting its claim of “regulatory change.” The invoice will be backed with 10,000 pages of supporting information.
- CB&I offered no willingness to back-off of the \$1.2B EAC.

Other Noteworthy Comments ... in no particular order

- Kevin Marsh was extremely clear on the following points:
 - His disappointment in the Consortium leadership for allowing so much time to elapse before agreeing to a follow-up meeting ... including the fact that the Consortium came to this meeting with no real counter-proposal.
 - The Owners (greatly) prefer seeking a settlement that all parties can live with ... litigation will forever change the landscape of the Project.
 - SCE&G will make a filing with the PSC near the end of Q1 2015 ... at which time SCE&G will present a new schedule, proposal on (potentially new) BLRA milestones and an estimate to complete the Project. In the absence of having an agreed upon estimate to complete the Project ... SCE&G will inform the PSC that in order to protect its customers the Project is headed to litigation ... and that SCE&G will present the results of such litigation to the PSC when they become available.

- **Lonnie Carter ... on “regulatory change.”** Regulatory change typically includes public notices, hearings, etc. which ultimately result in an actual change to a regulation. Santee Cooper is not aware of any such change to the NRC regulations governing this project ... and accordingly does not agree with the Consortium’s argument on “regulatory change.”
- **Steve Byrne comments after the meeting:**
 - He anticipates the WEC “regulatory change” invoice will be for approximately \$70M.
 - Phil Asherman had good legal coaching in preparation for this meeting ... and apparently sees no reason to give up on its \$1.2B ask.
- **Michael Crosby ... note to Owners:**
 - The \$1.2B EAC ... was the “accelerated version” based on the Dec 2018 – Dec 2019 Unit completion schedules. With these dates now off the table ... we should revert back to discussing only ... the \$1.0B EAC.

Near Term Path Forward

- **Round 3, Dec 19, 2014, 10:00am – Consortium agreed to a follow-up conference call:**
 - SCE&G to provide a meeting notice with call-in instructions.
 - Kevin Marsh asked Michael Crosby to help coordinate an Owners meeting (or conference call) including attorneys to discuss this meeting and strategy forward in preparation for Round 3.

ATTORNEY CLIENT PRIVILEGED—CONFIDENTIAL

General Talking Points for Nuclear Construction Meeting—November 14, 2014

1. OWNERS SHOULD NOT BE IN A RUSH TO TAKE ANY ACTION

The burden to resolve the current dispute is on the Consortium, as both parties within the Consortium are at fault in causing unexcused project delay. Owners have withheld \$28,365,017 in overpaid progress payments and \$2,056,360 in milestone escalation from invoices received through 10/01/14, by March of 2015 the aggregate withheld figure will be \$75 million. CBI is under increasing financial pressure as a result. Every day construction work continues on site. A settlement now in effect rewards the Consortium for late work. Other than having the matter settled, there is no immediate reason to force a resolution.

2. A LEGAL REMEDY DOES NOT APPEAR VIABLE FOR OWNERS

The EPC agreement caps Owners' liquidated damages at \$150 million. At this juncture, we do not have proof of fraud or other business wrongdoing that would allow a Court to set aside those agreed damages under New York law. We continue to research this point, but there is a substantial risk to the Owners that, in spite of the Consortium's continuing unexcused delays, our damages remedy will be insufficient to cover losses.

3. THERE IS DISAGREEMENT AMONG OWNERS ON TERMS OF POTENTIAL SETTLEMENT

Santee Cooper cannot agree to the 11 points of settlement proposed by SCE&G, and specifically disputes an offer to reset liquidated damages at \$300 million in event of global agreement.

4. REQUIRE CONSORTIUM TO RESOLVE THIS DISAGREEMENT INTERNALLY

From the start of construction, the Westinghouse unfinished design has impeded the Contractor's ability to perform. Over and above that, CB&I has been unable to fabricate submodules to NRC standards while maintaining a schedule. Westinghouse/Toshiba has the burden and wherewithal to internally satisfy CB&I's claims. A capitulation at this point by Owners only reinforces the problem and enables it to continue. Westinghouse has chosen this contractor and hopes to sell the AP1000 worldwide. If necessary, before any offer is made to the Consortium, Owners' senior management should go to Westinghouse senior management to point this out, and on to Toshiba if required.

5. OWNERS SHOULD PURSUE ADDITIONAL CONSTRUCTION MANAGEMENT EXPERTISE

Going forward, heightened oversight of the project should be exercised by Owners, including the procurement of additional construction management expertise.

6. OWNERS SHOULD PURSUE MORE AGGRESSIVE TARGET COST REDUCTIONS

In addition to withholding payments for additional storage costs, we should consider reductions for other target costs (e.g., make adjustments for poor direct craft productivity factors, and excessive numbers of field-non-manual and indirect craft personnel).

7. OWNERS SHOULD PURSUE AN ARTICLE VII REMEDY NOW

Article VII of the EPC entitled "Price Adjustment Provisions" allows Owners to pursue a reduction in construction costs when the inflation rate and "other cost changes" are favorable. These market conditions have occurred in Owners' favor. We should immediately notify the Consortium of our intent to pursue this contractual remedy.

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